

Swot analysis of bajaj auto



**ASSIGN
BUSTER**

Bajaj Auto Ltd is the second largest producer of two-wheelers in India, a drop from their preliberalisation position of being market leaders. They are, however, the largest exporters in this segment, which is in part due to the recent strategies that they have followed, including a shift towards more R&D intensive investment, and an attempt to cater to all segments of the society. In this report, we propose to present a holistic view of the automobile industry, mentioning the various challenges and opportunities available, and Bajaj's role in the same. We start out with looking at Bajaj's current position in the two-wheeler market, and analyse that with respect to the current macro-economic scenario (in terms of the PEST analysis) and the industry scenario (in terms of Porter's Five Forces Model). We also map the changes in PEST to changes in the Five Forces and analyse Bajaj's strengths and weaknesses with respect to these. Thereby, we find out whether these changes can be exploited by Bajaj and give our recommendations as to what their future strategy should be. Our analysis comes up with the conclusion that the two wheeler industry, though it is facing a slight downturn today, is still highly lucrative and is likely to provide immense future potential for Bajaj, as is evident from the forecasts for the industry. Accordingly, we make several strategic recommendations which we expect would give Bajaj competitive advantage over other players, and would enable them to regain their strong hold on the two-wheeler industry.

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INTRODUCTION

BAJAJ AUTO came into presence on November 29, 1945 as M/s Bachraj Trading Corporation private limited. They started fresh by selling two and

three wheeler in India and obtained a license from Government of India to manufacture and it went public in 1960. In 1970, it rolled out its 100, 000th vehicle. In 1977, it managed to produce and sell 100, 000 vehicle in a single financial year. In 1985, it started manufacturing at Waluj close Aurangabad. In 1986, it be able to to produce and sell 500, 000 vehicle in a single business year. In 1995, it rolled out its ten millionth vehicle and manufactured and sold 1 million vehicle in a year.

The company is headed by Rahul Bajaj who is worth more than US\$1. 5 billion. According to the author of Globality : competing with Everyone from Everywhere for Everything, Bajaj has grown task in 50 countries by creating a line of value -for-money bikes targeted to the different preference of entry-level buyers.

(Kwenkbodenmille, 2008)

SWOT ANALYSIS:

WEAKNESS

- Strong cash base but hasn't been invested efficiently.
- Not a strong international brand despite high export volumes.
- Distribution network is not as strong and extensive as Hero Honda.

STRENGTH

- Highly experienced management.
- Extensive R & D focus.
- High performance products across all categories.
- Number one position in exports.
- Collaboration with BAFL for financing.

- High economies of scale and scope.

OPPORTUNITIES

- Rising disposable income.
- Increase first time in motorbike buyers
- Decline in interest rate for two wheeler financing.
- Shift from entry level motorbikes to performance oriented bikes
- Inadequate public transportation infrastructure.
- Low operating cost.

THREATS

- Imitation of designs and technological
- Innovations by competitors is easy
- Foreign players coming in India, especially
- Low cost Chinese motorbikes manufacturers
- Declining margins due to increasing
- Competition

PESTEL ANALYSIS :

POLITICAL:

- Investment policy- 100 per cent foreign direct investments (FDI) are allowed in companies through the automatic approval route-
(STRENGTH)

International companies can invest in India either by picking up a 100 % equity stake or by acquiring a share jointly with another company in the auto and auto ancillary segments.

Policy aims to promote a globally competitive auto industry in India

- Import policy (STRENGTH)

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- Excise duty -Two-wheelers and key raw materials (STRENGTH/
WEAKNESS)

Changes in duty rates have an impact on demand too. In 2001-02, the excise duty on the <75 cc engine capacity two wheelers was lowered. This caused a shift in consumer preference from mopeds to motorcycles.

- Value added Tax (STRENGTH/ WEAKNESS)

State governments charge value added tax (VAT) or local sales tax and other levies. The change from local sales tax to VAT is expected to have benefited the two-wheeler industry in the form of lower tax incidence.

- Emission control laws (STRENGTH)

India has one of the most stringent emission norms in the world.

- Safety laws (STRENGTH)

Tighter emission standards have edged out two stroke motorcycles, which emit high levels of hydrocarbons and particulates vis-à-vis four-stroke bikes.

ECONOMICS:

- Interest Rates(STRENGTH)

Large firms have a cost advantage due to lower rates of interest they are charged while applying for loans (lower risk involved). A lot of capital is needed to enter the industry as initial outlays on investment are high, thus higher interest rates would prove as a disincentive to enter the industry.

WEAKNESS:

The buyer needs information on interest rates as these help determine whether or not it is economical to make a purchase. Customers are highly price sensitive and higher interest rates may lead to higher prices if the buyer needs a loan to make the purchase.

- Inflation (STRENGTH)

Inflation increases cost of purchase for different players differently, depending on the inputs and sources, may make it difficult for new players to enter. Inflation may affect the prices of different models differently, thereby making some players better off than the others, as customers may face costs in switching players, which may again make it difficult for new players to enter.

- WEAKNESS:

The buyer is highly price sensitive, and changes in prices affect the industry as a whole as buyers may not be in a position to buy a more expensive product. If inflation affects the two wheeler and four wheeler industry differently, then inflation could well have an adverse impact on this sector

- Economic Prospects (STRENGTH)

A lot of capital is needed to enter the industry, which may be difficult to come by if the economy is not doing well, and relatively easier to obtain if the economy is doing well. In times of economic boom, there are a large number of buyers. Switching costs involved in switching to substitutes. Easy to switch between suppliers.

- **WEAKNESS:**

These buyers are highly sensitive to price, but in times of good economic conditions, prices may no longer remain important criteria as disposable income of the population also goes up. Rapidly growing industry, particularly due to bright economic prospects.

SOCIAL:

- (STRENGTH/WEAKNESS)

Age of the Population : As the demographics of India is skewed towards the youth, more and more people are likely to tread unknown paths.

- Population have a strong/weak opinion on green issues

More educated people are focussed towards greener issues, which Bajaj has been able to address significantly.

TECHNOLOGICAL:

- Substantially increasing investments in production capacities(STRENGTH)

Do large firms have a cost or enactment advantage in your segment of the industry?

Is a lot of principal obligatory to enter your industry?

- Establishing partnerships in India and abroad

Is there a large number of buyers relative to the number of firms in the business

- Proficiency in Understanding Technical Drawings, specifications and well conversant in all Global Automotive Standards

(STRENGTH/WEAKNESS)

Do large firms have a cost or performance benefits in your fragment of the industry? Are there any brand-named product differences in your industry? Does your product or service have any trademarked geographies which give you lower costs?

- Increased raw material costs

Increasing costs due to business cycles, rising steel and oil prices

(Kwenkbodenmille, 2008)

RECOMMENDATIONS:

- 1) Use excess capacity present to produce ungeared scooters for women. The female population constituting around 50 per cent of our addressable population contributes less than 10 percent of the total two-wheeler demand. With urban markets with addressable male population getting saturated, players will have to aggressively target the women population for expansion.
- 2) Review product mix, focus on R&D to bring new products in market
 - Demographics show increased youth population
 - Young people fashion savvy

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3) Focus on Rural market: Rural markets currently contribute around 45 per cent of the industry's demand. However, going forward, with urban markets getting saturated, analysts expect a rise in demand from rural markets. To address the changing dynamics, BAJAJ would have to resort to aggressive rural-centric sales and promotional activities. BAJAJ would have to alter marketing strategies by focusing on rural oriented advertising on mass media, educational road shows and create aspiration values for the products, and expand their sales distribution network.

- Introduce low cost models
- Develop sales distribution network which is currently weaker than other players
- For rural youth, introduce low cost trendy vehicles

4) Increase focus on exports and penetrate new markets:

With domestic demand for two-wheelers slowing down, it would be increasingly important for BAJAJ to look beyond boundaries to partially mitigate the slowdown. BAJAJ would accordingly have to develop products suitable for different markets; high investments are required for setting up manufacturing facilities and for building a reasonable level of brand equity. Till now BAJAJ focussed only on economy class and developing country markets, but now in those segments it is facing competition from cheap Chinese players. Therefore need arises to penetrate new markets like USA and UK.

CONCLUSION:

Bajaj auto faces stiff competition from the Market leader Honda and closest rival Suzuki. It is because they are not able to create reliable brand image among their customers. They need to focus on developing their products that can give better experience to their consumer.

From the survey, it is seen that Bajaj is only able to somewhat satisfy their costumers from their products. They need to create a great sense of joy in their customers by offering unmatched product features and service that will make their customers loyal to the brand and this will greatly help Bajaj in increasing its market share.

Bajaj's product prices are in comparison with its leading competitors. The problem is that consumers do not think that Bajaj has that much value and hence prefer to buy other brands. Bajaj need to offer more competitive pricing and better promotions to sell their motor cycle better.